

MINUTES

FINANCE & ECONOMIC DEVELOPMENT (TOURISM / VISITOR INDUSTRY / SMALL BUSINESS DEVELOPMENT / SPORTS & RECREATION DEVELOPMENT / OTHER ECONOMIC DEVELOPMENT AREAS) COMMITTEE

August 7, 2013

A meeting of the Finance & Economic Development (Tourism / Visitor Industry / Small Business Development / Sports & Recreation Development / Other Economic Development Areas) Committee of the County of Kaua'i, State of Hawai'i, was called to order by Councilmember Tim Bynum, Chair, at the Council Chambers, 4396 Rice Street, Suite 201, Lihue, Kaua'i, on Wednesday, August 7, 2013, at 11:16 a.m., after which the following members answered the call of the roll:

Honorable Tim Bynum
Honorable Gary L. Hooser
Honorable Nadine K. Nakamura
Honorable Mel Rapozo
Honorable JoAnn A. Yukimura, Ex-Officio Member
Honorable Jay Furfaro, Ex-Officio Member (*excused at 11:55 a.m.*)

Excused: Honorable Ross Kagawa

The Committee proceeded on its agenda item as follows:

Bill No. 2495 A BILL FOR AN ORDINANCE AMENDING
CHAPTER 5A, KAUA'I COUNTY CODE 1987, AS
AMENDED, RELATING TO REAL PROPERTY TAXES
[This item was deferred.]

Chair Bynum: Chair would entertain a motion to approve.

Mr. Hooser moved to approve Bill No. 2495, seconded by Ms. Nakamura.

Chair Bynum: We will call up the Administration who I believe has a short presentation. While they are coming up, this is a tax Bill that we just had first reading. It has several measures including an increase in homeowner's exemption, the elimination of the Permanent Home Use (PHU) cap, and other provisions to put in a home preservation credit for those outliers who may have had grandfathered circuit breaker into their PHU and other circumstances over. It also raises the minimum tax and creates a minimum for credit unions. Those are kind of the major elements. The County has an issue throughout collecting and assessing data and we have discussed that at length here at the County Council meetings in the past. Because the PHU is such a complex formula that impacts every taxpayer differently, to calculate the data is difficult. So, right now the amounts that are in this Bill are place holders. In dialogue with the Mayor, there was an agreement we were targeting three million eight hundred thousand dollars (\$3,800,000) of tax relief for the homestead class. I do not think we are going to have totally accurate figures of what that amount will be today, but we will talk to Steve. We had public hearing on this Bill this morning because in

order for these changes to occur for the next Fiscal Year, this Bill needs to pass relatively soon. In essence we have room for one (1) deferral in Committee if we want these provisions. I am asking all Committee members to prepare amendments, certainly, I think we will end up deferring today, but that is the only deferral that we have. I have an amendment that may be available today although this is the Administration's Bill. With that synopsis and those parameters, are there questions? Councilmember Nakamura?

Ms. Nakamura: I would like to introduce an amendment to the Bill at this time just so that we can have the Administration also explain the amendment. This is being passed out, that changes one Section, Section 6E of the Bill and this is by request. It just clarifies that language and I am sure Mr. Hunt can clarify the intent of the Bill. It also removes within Section 6, relating to references to vacation rentals.

Chair Bynum: I would like to have Mr. Hunt receive a copy of this and this is exactly what I had hoped, that any revisions other than that discussion about the number amount, that we work on it today as much as possible. So, thank you for this. I understand Mel has an amendment and Gary has one that he is introducing by request of myself. Mel, did you want to circulate your amendment now so we can include it in the discussion or would you prefer to...

Mr. Rapozo: Well, I think we can only do one (1) at a time. Did you introduce your amendment?

Ms. Nakamura moved to amend Bill No. 2495 as circulated, as shown in the Floor Amendment which is attached hereto and incorporated here in as Attachment 1, seconded by Mr. Rapozo.

Chair Bynum: Can we go to Mr. Hunt now and then come back to your amendment when he is finished? Will that work for the Committee? Thank you, Mr. Hunt.

There being no objections, the rules were suspended.

STEVEN A. HUNT, Director of Finance: I will go through the presentation first before we get to the amendment and then I will discuss the reasons for that. Bill No. 2495, really is an attempt to bring back some equity to how real property taxes are distributed, particularly to the homeowners and those even not just within the homeowner class, but anyone with a home exemption and is subject to the Permanent Home Use cap. The intent of the this Bill again, is to be a revenue-neutral Bill based on increased exemption amounts from the 2013 data, which is the Fiscal Year 2014 year taxes, of which three million eight hundred thousand dollars (\$3,800,000) in credits were distributed to all of the qualified people within the home use class and home use being extended not just homestead, but also anyone in another class that has a home exemption. Our place holder were initially set at one hundred thousand dollars (\$100,000) for the first increment and another twenty thousand dollars (\$20,000) added for people over age sixty (60) and then another twenty thousand dollars (\$20,000) for people over age seventy (70). So, those would be increasing the amounts from forty-eight thousand dollars (\$48,000) to one hundred thousand dollars (\$100,000), from ninety-six thousand dollars (\$96,000) to one hundred twenty thousand dollars (\$120,000) and from one hundred twenty thousand dollars (\$120,000) to one hundred forty thousand dollars (\$140,000). That was the first swag, if you will, at an attempt at getting that parity. After the research that done, we think those are a bit short and I will share with

you during the presentation what I think those numbers may have to be to get to a revenue-neutral position for this group. The first change that we are proposing is for the Tax Year 2014, which is Fiscal Year 2015, that the minimum tax would be increased from twenty-five dollars (\$25) to one hundred dollars (\$100). In the following the subsequent Tax Year 2015 or Fiscal Year 2016, that would go to one hundred fifty dollars (\$150). There are some exceptions that we have add. Those who are qualified as low-income recipients and receive the additional one hundred twenty thousand dollars (\$120,000) exemption, would pay half of that amount for Fiscal Year 2015, that would be fifty dollars (\$50) and for Fiscal Year 2016 that would go to seventy-five dollars (\$75). Also, exempt from that would be the Hawaiian Homelands which we are proposing that they would pay no property taxes, they would go to zero (0) minimum tax. Currently, they are paying no taxes for the first seven (7) years after which they start paying twenty-five dollars (\$25) a year. However, we had some challenges in collecting those taxes. The amount that we received from them certainly does not offset the cost that we attempt to collect nor bill and mail for this group. There was also quite a bit of testimony at the Cost Control Commission from Hawaiian Homeland groups representing that they should in fact by paying zero (0) and dealt with some seeded landed issues and other things that beyond the scope of this Council or the County. We are proposing because of the difficulty in administering the Hawaiian Homelands program and collecting, that that would go to zero (0).

The highest and best use of the property determines its tax class. This has not changed, but we are saying that it is the actual use not the zoning that determines what tax rates would be applicable to those properties. In the case of multiple uses on the same property, that is why we have the amendment that Councilmember Nakamura has introduced that deals with that when you have multiple uses which is the appropriate use to be established for that tax class. Now, currently we have – I think it is Section 6F, which also is in this proposed amendment, we have language that would say, “a vacation rental is not eligible for a home exemption.” Home exemptions and property tax classifications are two (2) separate items. This would create further inequity because we have properties such as dentist’s office where they occupy the main floor and their primary residence on the same building above. We do that. We do allow home use exemptions for those types of properties with multiple uses. The tax class would still be commercial, because there are two (2) uses on that, but they are entitled to that exemption. There are other situations that this occurs and so the concern would be why are we just picking on the vacation rental and not allowing that because it is a separate qualification process. There are generally three (3) ways in which the property could be entitled to a home use exemption. One would be two (2) buildings on the same property. One is their primary residence and other is a vacation rental. They clearly occupy three hundred sixty-five (365) days, this is the only property that they have, they are entitled to that home exemption so on all other accounts who have earned that exemption. The other would be an upstairs/downstairs or rental of a portion of the home where they are renting a room out as a vacation rental, still subject to the Transient Accommodation Tax (TAT), still getting the tax classification as vacation rental. But again, this is still their primary residence, they are still entitled to that home exemption. The third would be more of a split use where maybe nine (9) months of the year this is their primary residence. It is still their only residence, but during the summers they may vacation elsewhere and while they are gone they have a vacation rental license and they lease it out for two (2) to three (3) months out of the year to help offset some of their own vacation. Again, tax classification, still vacation rental, but it is still their primary residence. It has not changed. That was one of the concerns reading Section F, that we are not giving exemptions to where the owner does not reside there. What we are saying if

they reside there and meet all the other criteria that we established in getting the home use exemption, that they should be entitled to that home exemption amount but the tax class would be associated with their actual use with the higher use in this case, vacation rental.

This is the permanent home use limit. These sections are being replaced by Section 5A11.4. The permanent home use limit was one – that is actually the PHU cap and Section 9.4 was the old program where you actually used to dedicate your property for a minimum of ten (10) years to a residential use. This would be in the case of properties zoned commercial or agriculture and had other higher rates that they would actually dedicate that for a residential use and pay the lower residential rate. So, those two (2) programs are being supplanted with the language that we are adding in Section 11.4. Again, this was the place holders that we had initially established to do our first run on what the impact would be, increasing essentially properties that are one hundred thousand dollars (\$100,000) or less with the home exemption of one hundred thousand dollars (\$100,000) would be exempt except for the minimum tax, properties that were over one hundred dollars (\$100) would be entitled to one hundred thousand dollars (\$100,000) provided that that owner was under sixty (60) years of age. At the point where they turned sixty (60) and not yet seventy (70), that would increase to one hundred twenty thousand dollars (\$120,000), and then when the taxpayer is seventy (70) or older, they would get one hundred forty thousand dollars (\$140,000). My new estimates to get to revenue-neutral and again, this is still rough because there are a lot of moving piece and we do not know how many people are entitled order apply for the home preservation credit. So, there is a little bit of moving pieces to this, but based on the difference that we currently have, we are estimating that the numbers would need to be increased by thirty thousand dollars (\$30,000) each so that there would be one hundred thirty thousand dollars (\$130,000) exemption, one hundred fifty thousand dollars (\$150,000) exemption, and one hundred seventy thousand dollars (\$170,000) exemption to get to close to revenue-neutral from this tax-paying group; all of those who have home exemptions.

Credit unions, this is an exemption that has been on the books for a very long time. There was some discussion at Cost Control Commission about this. There was also some discussion at the City and County regarding the exemptions for credit unions. Their intent and purpose has morphed over the years. In many regards credit unions are now operating as full financial institutions, Automated Teller Machine (ATM) cards, checking accounts, savings accounts, Certificates of Deposit (CD), very similar to other financial institutions that are not exempt nor are non-profit. So, there are certainly a level of service that the County provides. They still require certainly fire protection, they require police services, other types of services that those that are not paying their fair share could pay more and so the credit unions are something that we looked at as setting a new bar for them. I know that they do distribute all of their revenue back to their shareholders, which are their depositors. So, it could be an impact on the amount of dividends that some of the depositors receive. But again, there is still a certain amount of County services that they are receiving from us and you think one thousand five hundred dollars (\$1,500) is a reasonable amount as an annual basis to help pay for some of those services.

The long-term affordable rentals, this is a clarification because we now have single value/single rate, we are not identifying separately or prorating or capping any portion of the property. We have to have a total use of the property as affordable. In the case where you have a mixed-use where you have an owner with maybe three (3) homes on the property and one is the prime residence, one is an

affordable rental, and one is a vacation rental, we cannot be breaking out different rates because they do not exist separately as separate values. The only way that is possible if someone wanted to subdivide or Condominium Property Regimes (CPR) into separate entities and which case they could have three (3) different assessments, three (3) different tax rates, and accordingly be taxed. But in the case where it is an unsubdivided/unCPRed property and you have these uses, all of the dwellings on the property must qualify as either a long-term affordable rental or an owner-occupied to be globally classified as a homestead tax. Again, these are annual applications for the affordable rental that must be done September 30, 2013 with a year lease or more to qualify.

The home preservation tax credit, this is something that is new and is an attempt to replace what formally was a Circuit Breaker Program that was very dysfunctional. It did not operate well and allowed for a lot of abuses. Under this, we are very stringent on the requirements and it is truly meant for those to preserve only their home. This not an investor protection program. Anyone who owns multiple properties would not be eligible. We are looking at having a qualification period of at least ten (10) years that the property has been owned and maintained as a homestead by that taxpayer. They cannot own other properties. If they have multiple dwellings, each one must be owner-occupied. You cannot be qualified as homestead with multiple affordable rentals on the property. We are not looking at this as income-producing properties. These are just used as residences. We are looking a net taxable value from the preceding year of at least seven hundred fifty dollars (\$750) to be eligible and that the minimum income from all owners cannot exceed one hundred thousand dollars (\$100,000). We are look all owners because that justifies ability to pay. So, if the owner/occupant has a fifty percent (50%) interest but their rich uncle has another fifty percent (50%) interest and he can well afford to pay, we are looking at that income as well. So, all title holders we would look at their gross income. You also cannot have delinquent taxes on the property to be eligible for application. You must be current with your taxes. With that, I open up to questions or if you need further clarification on the amendment, I am happy to do so.

Chair Bynum:

Councilmember Hooser.

Mr. Hooser: If you could just clarify. I think you probably already said it, but just a descriptive form. If a homeowner is living in residential and operating a business, is it taxed as business or is it taxed with the homeowners?

Mr. Hunt: If it is an owner-occupant that is ineligible for home exemption, they would still be entitled to that, but the tax rate would not be the homestead tax rate, it would be the overall use. In the case where we are looking – and this speaks to “E” which is the clarification of how we establish what that highest use is, it is the highest use as set from the preceding year’s tax rates. So, in this case the pecking order essentially would be – resort and hotel would be the highest. They have the current highest tax rate. So, if someone has a resort on their property and a portion of it is a residence where they live, they are going to be taxed at the resort rate. Then vacation rental, commercial and industrial is next and look at the uses and if it is predominantly commercial, then it would be commercial or vacation rental, for vacation rental.

Mr. Hooser:

The key is predominantly?

Mr. Hunt:

Well...

Mr. Hooser: So, if you have...

Mr. Hunt: Of the higher uses.

Mr. Hooser: If you have a home and then you have an office or something adjacent to the home or part of the home, is it automatically the higher rate?

Mr. Hunt: Yes.

Mr. Hooser: You said predominantly.

Mr. Hunt: Well, say you have multiple uses from the same...

Mr. Hooser: Yes, so home.

Mr. Hunt: Say you had commercial, industrial and vacation rental. They all have the same tax rate currently.

Mr. Hooser: Right.

Mr. Hunt: So, we would look at the other uses if it is notice only residential, but you have vacation rental and commercial, of that, which is the more dominant? So, if they had commercial then it would be commercial.

Mr. Hooser: If the property, two-thirds (2/3) of the property's use was residential and one-third (1/3) was commercial, is that predominantly residential?

Mr. Hunt: It would be classified as commercial

Mr. Hooser: So, that predominantly does not fit?

Mr. Hunt: Only when we are determining what the higher of similarly – if you had really the three (3) tax classes would be commercial, vacation rental, and industrial all have the same tax rate. So, if you have two (2) of those uses or all three (3) uses going on the property, what is the predominant? Is it more commercial or is it more vacation rental? But clearly even if a small portion of it was commercial but your residence being the other, until such time as they have either subdivided or CPRed into other entities, we only have one (1) rate and one (1) value and there is no way to prorate that into other bills.

Mr. Hooser: So, the predominance is not the predominance of the use, it is the highest rate.

Mr. Hunt: It is determination of the rate.

Mr. Hooser: I am not sure if predominance is – because it leads you to believe that predominance of use if you are mostly using agriculture or mostly using whatever, that would be the tax rate, but that is not the case.

Mr. Hunt: That is not the case.

Mr. Hooser: It is just if you are using any portion of commercial or whatever the highest rate prevails?

Mr. Hunt: Right, and only where the rates have similar rates, then we look at the predominant use of those higher rates to establish what that tax class were.

Mr. Hooser: Thank you.

Chair Bynum: Councilmember Rapozo and then Council Chair Furfaro.

Mr. Rapozo: Thank you, Mr. Chair. What would constitute commercial?

Mr. Hunt: Commercial...

Mr. Rapozo: We have a lot of home-based offices, not even an office, just a home-based business. They have General Excise Tax license, they sell books or they might sell stuff, and they have a General Excise Tax license and could be pulling in sixty thousand dollars (\$60,000), seventy thousand dollars (\$70,000) a year. We have a lot of people on Kaua'i buying and selling. They have a General Excise Tax license. What actually constitutes a commercial?

Mr. Hunt: Well again, I would like to probably define that in Administrative Rules. My interpretation would be are you using your property for clients to come to you? Is it clear? Do you have a placard outside that this is a place of business? Do you have marked striped parking within your parking lot? Is it clearly a place that is commercial in use? Have you applied for a Commercial Use permit? Things like that would be, to me, to say this is a commercial use. A home-based office where an Attorney take home work and does work from his home office in the house, clearly we are not looking at that. But if the Attorney is sending his business and saying meet me at this place, on my business card, here is my place of work, come visit me, then we are now using that as a commercial activity.

Mr. Rapozo: If a person does not have to be an Attorney, could be anything. It could be an author. It could be something that does not have clients. It is a service-based industry or service-based business that does not have customers that do their work all online.

Mr. Hunt: Right.

Mr. Rapozo: But they are still engaged in a commercial operation at their home. Their office is their home. They would not get charged?

Mr. Hunt: I would say an author probably not. If they had a printing press and they were actually doing...

Mr. Rapozo: I guess that is where I am looking. How are we going to make that differentiation because I can tell you what will happen because it is a substantial difference in taxes. You may not have people come in for Commercial Use permits. They may just be doing it quietly because they do not want to get hit with the tax. I do not know how you draw that line. Is it arbitrary? Who determines that?

Mr. Hunt: Part of this is the use survey itself. When we submit to all people who purchase, all people who transfer title even if it is father to son transfer, and how they are using the property, they are actually given a use survey to complete. For the most part we go by it and there is a little bit of research especially for vacation rentals to see if there has been any registration or any activities or do they have a website maintained, that kind of stuff. We end up Googling a lot of the property addresses to see what shows up on that particular property address. But it is to the extent that they are driving clients to their property and making it commercial which has an impact on the neighborhood, their neighbors, and everything else and appropriately should on their taxes.

Mr. Rapozo: Thank you.

Chair Bynum: Council Chair Furfaro.

Mr. Furfaro: I am not on your Committee.

Chair Bynum: That is fine.

Mr. Furfaro: Steve, a couple of questions here. The proposed tax for the Federal credit unions, the credit unions. Is it by business property location or is it by the registration of credit union?

Mr. Hunt: It is tied to the property and the application for the exemption. So, if you are applying for that exemption on either a standalone property or a portion within a commercial center, it is specific to that application.

Mr. Furfaro: Kaua'i Community Federal Credit Union, five (5) locations, per location?

Mr. Hunt: Per location.

Mr. Furfaro: So, it is five (5) times one thousand five hundred dollars (\$1,500). So, it is seven thousand five hundred dollars (\$7,500). One of the smaller credit unions, Hawaiian Tele, just one (1) location, one (1) time tax?

Mr. Hunt: Correct.

Mr. Furfaro: That is what you are proposing? Do you know what the total impact of that is in dollars?

Mr. Hunt: About thirteen thousand two hundred seventy-five dollars (\$13,275).

Mr. Furfaro: Now, next one. I told you earlier I do not favor not taxing Hawaiian Homes.

Mr. Hunt: I understand.

Mr. Furfaro: The Cost Control Commission proposed one hundred fifty dollars (\$150), I believe. Currently, it is twenty-five dollars (\$25). Why do we just not leave it at twenty-five dollars (\$25)?

Mr. Hunt: It is certainly an option.

Mr. Furfaro: Let me ask you, on your receivables, you indicated that part of the reason we are not collecting, so we are going to zero (0). My question is and maybe the County Attorney can help us here, why could we not place a lien on the Department of Hawaiian Home Lands (DHHL) for the money that is owed us? People have ninety-nine dollars (\$99) lease, but the property for which we are taxing the minimum tax of twenty-five dollars (\$25) for fire, police, ambulance, and responses, how big is our receivable there?

Mr. Hunt: I do not have that handy. Last time it was over – I want to say like sixty thousand dollars (\$60,000), somewhere in the neighborhood of fifty thousand dollars (\$50,000), sixty thousand dollars (\$60,000) penalty and interest.

Mr. Furfaro: Penalties and interest. So, why do we not just leave the tax what it is and do to the Department of Hawaiian Homes and file a lien and let them help us collect?

Mr. Hunt: That is an option. Their leasehold tenants, even though they are obligated to pay under their lease agreements with DHHL, ultimately DHHL is responsibility.

Mr. Furfaro: Ultimately, DHHL is responsible, that is right. We have some great music going on at the moment. Are we okay BC? I am not proposing to increase what the tax is, I am just saying that before we walk away from sixty thousand dollars (\$60,000), seventy thousand dollars (\$70,000) of earned income that is sitting as a receivable, why would we make some attempt to collect it before we write it off?

Mr. Hunt: I do not think we are proposing to write it off. It is more as we collect...

Mr. Furfaro: If you are not going to file a lien and go to zero (0), what are doing with it? You are going to let it sit in a receivable?

Mr. Hunt: It has been. I think every three (3) years it gets looked at in terms of the accumulation and then...

Mr. Furfaro: And then you come in for a write off?

Mr. Hunt: I do not think we have. Have we?

Mr. Furfaro: What do you do?

Mr. Hunt: Does it go in collections or write off?

Mr. Furfaro: Say that again. I am sorry? Collections writes it off?

SALLY A. MOTTA, Deputy Director of Finance: We have an employee who has come to us from the Department of Hawaiian Home Lands and she is very familiar with the procedure and she is in the process now of working directly with them to collect the delinquent taxes at this time.

Mr. Furfaro: Sally, let me ask you this, we have an employee who helps us, that is very nice. What happens when the employee

retires? Who comes and helps us? Understand the value of *kōkua*. My question is from a business standpoint, do we or we would consider filing a lien?

Mr. Hunt: Yes, I think we would consider filing a lien and typically we would follow the same procedures we do with any other delinquent taxpayer.

Mr. Furfaro: With any other person who has the benefits of fire, ambulance, and police, we would file a lien on their property?

Ms. Motta: We would have to check to see if we can do that. I do not believe we can.

Mr. Hunt: The issue could be whether you can foreclose on it. You could file the lien, but I am into the sure if you can foreclose on Hawaiian Home Lands.

Mr. Furfaro: I am not asking us to go as far as foreclosing on something. But I think at least getting the message to the Agency that holds the property that any *kōkua* we could have on collecting the receivables because the leases change hands. If you have a lease that changes hands and it has a two thousand five hundred dollars (\$2,500) receivable on it, maybe it could be done when legitimately it gets re-recorded. It gets re-recorded with a collection on it. I am not saying I understand the process perfectly. I am understanding what are we doing about it before we just say, we are walking away from it.

Mr. Hunt: I know at one point we were in some global discussions with the other Counties because they have similar situations and we were trying to put a collective pressure to settle these.

Mr. Furfaro: Before we go to zero (0), what does Maui do, what does Hawai'i do, what does Honolulu do, the minimum tax in Hawaiian Home Lands?

Mr. Hunt: The minimum tax is the minimum tax for that County, but I believe in Hawaiian Home Lands for Maui, they exempt the land but the improvements are taxable.

Mr. Furfaro: So, the house is taxed.

Mr. Hunt: Yes.

Mr. Furfaro: And at a rate that is?

Mr. Hunt: Whatever the homesteader rate is for that particular...

Mr. Furfaro: It could be a substantial amount?

Mr. Hunt: Yes.

Mr. Furfaro: Could you do that research for me?

Mr. Hunt: Yes.

Mr. Furfaro: Thank you.

Chair Bynum: Councilmember Hooser.

Mr. Hooser: Since we are addressing areas that are behind or not being paid, maybe you could briefly update us on the status of unpaid taxes on six thousand (6,000) acres of lease lands by the four (4) agrochemical companies that have not paid taxes on those lands in many years?

Chair Bynum: If I may interject?

Mr. Hooser: Yes.

Chair Bynum: I gave some latitude to the Chair to talk about, because this is really off-topic somewhat but it was related to Hawaiian Homelands and the proposal before us. I would entertain a separate posting to talk about these delinquent tax issues because if this provision to exemption Hawaiian Home Lands, it will not eliminate those taxes right, Steve?

Mr. Hunt: That is correct.

Chair Bynum: They still exist. This would be a new thing going forward.

Mr. Hooser: A separate posting would be a good.

Chair Bynum: I would be happy to do that.

Mr. Hooser: I think that we are talking about income and the budget of the County and the taxation picture.

Chair Bynum: Right.

Mr. Hooser: I think it warrants a full discussion. So, if staff to prepare a posting to that.

Chair Bynum: I agree.

Mr. Furfaro: And to the Chairman, thank you for recognizing my point of view before we go to zero (0), are we going to zero (0) because it is not a collectible?

Chair Bynum: It is related and so I think it was appropriate to have that discussion.

Mr. Furfaro: Thank you.

Chair Bynum: But when we move into a new field, let us do a separate posting.

Mr. Hooser: That was a good call, Chair. Thank you.

Chair Bynum: Other questions for Mr. Hunt?
Councilmember Nakamura.

Ms. Nakamura: Steve, could you please clarify how much do we receive now from DHHL lands under this twenty-five dollars (\$25)?

Mr. Hunt: Basically, it is twenty-five dollars (\$25) after the seven years. So, zero (0) for seven (7) years, twenty-five dollars (\$25) both land improvements after the seventh year of an individual lease. There are a number of lands that have been subdivided that are still under the control of DHHL and they pay zero (0). They do not pay any property tax, only once an individual has created a lease does it start the seven (7) year window. I do not know off the top of my head how many current seven (7) year leases have been instituted.

Ms. Nakamura: I was just curious by going down from twenty-five dollars (\$25) to zero (0), what is the fiscal implication for the County?

Mr. Hunt: The bulk of the unpaid property taxes is actually from penalties and interest. Penalties are higher than the actual property tax itself. There is about one hundred twenty-five (125) for seven (7) year leases.

Ms. Nakamura: One hundred twenty-five (125)?

Mr. Hunt: Times twenty-five dollars (\$25).

Ms. Nakamura: Mel, what is that?

Mr. Hunt: Three thousand one hundred twenty-five dollars (\$3,125).

Ms. Nakamura: Three thousand one hundred dollars (\$3,100)?

Mr. Hunt: Yes, three thousand one hundred twenty-five dollars (\$3,125).

Ms. Nakamura: Can you tell us the nature of the feedback that the Cost Control Commission received from DHHL lessees?

Mr. Hunt: I think it was actually here at Council when the recommendation from Cost Control came forward to increase the minimum tax because there were no provision from Hawaiian Home Lands. They would be subject to the minimum tax, going from twenty-five dollars (\$25) to one hundred fifty dollars (\$150), that is where that became an issue.

Chair Bynum: Other questions for the Department of Finance? I am sorry, you were not done? I apologize.

Ms. Nakamura: I was just wondering, for properties that have multiple uses, you describe three (3) different scenarios where you could have multiple uses on one (1) property where the primary residence is part of the use.

Mr. Hunt: Yes.

Ms. Nakamura: Did you considered to break down the use? Right now, the proposal is to go with the higher use or the tax rate of the higher use.

Mr. Hunt: Correct.

Ms. Nakamura: No matter what size that use is and I was wondering, I have a home-based business so what the Internal Revenue Service (IRS) does is you figure out the proportion of your property of your primary residence being used for commercial use and then your tax advantages are only attributed to that proportion of the larger property. Did you ever consider that in this approach because we are get something feedback from some folks saying, "wow, this is pretty dramatic to go from a residential tax rate to commercial when my business may not be the primary use of the property."

Mr. Hunt: Right. One of the challenges is that we do not always have information as to how much of the property is being used. The other issue is how do you allocate land because we are not setting two (2) separate assessments. It is one (1) assessment, one (1) tax rate. So, until we get an alternative tax id, so if someone wanted to CPR and say business is here, residence is here, create two (2) separate properties, value them, and create two (2) separate assessments, two (2) separate tax rates, and two (2) separate billings, it can be done. But as it exists as one (1) property...

Ms. Nakamura: You are just saying that we are not equipped?

Mr. Hunt: We do not have that information.

Ms. Nakamura: Well, if they already have that information for IRS tax purposes, for the Federal government tax purposes, and they are getting benefits as a result of that, could you not use that as a guideline for real property tax? Let us just say my business was twenty-five percent (25%) of the overall square footage of the property I live in. Could you then just take the size of the property or could you just use that percentage?

Mr. Hunt: The question back would be we are *ad valorem* back on value. Is twenty-five percent (25%) of the area worth twenty-five percent (25%) of the value?

Ms. Nakamura: Could you make that assumption?

Mr. Hunt: It depends. If we just did square footage and you had a home built in 1950, that average maintenance and maybe has one hundred thousand dollars (\$100,000), one hundred fifty thousand dollars (\$150,000) building value and then you built a smaller building, but it is of much superior, higher quality newer that may contribute twice the value, the square footage may be half, but the value may be twice. So, until they have actually been valued separately and there is no way to do that without creating some kind of partition because then how do you allocate the land value? It is one (1) piece of land unsubdivided. So, if you have a three hundred thousand dollars (\$300,000) lot, who is to say two hundred thousand dollars (\$200,000) to the building and one hundred thousand dollars (\$100,000) here or is it vice versa on value?

Ms. Nakamura: For ease of implication, could we make that assumption, that you go with the IRS percentage?

Mr. Hunt: Again, if those square footages were available because we might run into an issue too where not everyone is reporting to

the IRS and not everyone is giving that square footage so it would be those that are reporting. If we only treated them separately, then you have the same people that might have the exact situations, but are not reporting the square footage to us, we cannot make assumptions. We do not know.

Ms. Nakamura: Could we make it a burden of the application.

Mr. Hunt: We could make it the burden of the applicant. But it still gets down to how do we, without a separate parcel identification, create a different tax rate? How do you blend the tax rate if two thirds (2/3) of its residential and one third (1/3) of it is commercial, how do you blend the two (2) into a tax bill without separate assessments?

Ms. Nakamura: Is that a – because our current system is not set up that way, you would need to change your...

Mr. Hunt: It would be some major changes and some, I guess if you are getting into the proration of that, you are really getting into two (2) separate assessments. What is the value of my residence worth, what is the value of my commercial worth, and then how do we bring them back together? But what if they appeal just – I do not think my commercial value is right. It is hard to come up with a property that does not exist separately, how we just prorated it, but how do you defend that value then on a value established through a proration as opposed to an independent value because the value for commercial land, if you are saying it is a commercial use, would have a different value than residential land.

Mr. Nakamura: Yes. But if you set it up that way and if you say if you want to take advantage of this system, that is just the rules of the game.

Mr. Hunt: Right. The cleanest break would be to create a CPR and whether it is a legal CPR or whether we do one for assessment purpose only, which can be done, we would still need all of that information to collect and break out and say this portion is residential and this portion is commercial, we are going to give you two (2) separate assessment notices, two (2) separate tax rates, and two (2) separate bills.

Chair Bynum: Councilmember Nakamura, I wanted to follow-up on that. This is a dialogue I had with you many times and Wally, and the conclusion I came to was that to fix this situation, we need to go through zoning to allow these lots to be treated separately. We have a high volume it turns out, compared to most communities of two (2) residential homes or two (2) buildings on one (1) Tax Map Key (TMK). We are trying to get rid of the PHU, I think, because it is so incredibly complex, burdensome, and regulatory process. I am afraid when we went into this, that is what we would create for real property, a very complex and going into areas that you traditionally do not go. I do believe there is a solution in Planning, but that is a bigger issue and we are not going to get resolved today. I just wanted to share that.

Ms. Nakamura: I guess the reason why I am asking these questions because I really believe in the value of home-based businesses. I think it reduces the cars that are on our roads, mixed-uses are good as far as the whole Smart Growth concept, and it seems like this policy is making it harder or makes it more difficult to encourage that policy rather than centralized businesses people are

just doing it in their communities where it is appropriate. I guess that is where I am concerned about the larger public policy message that this is sending.

Mr. Hunt: Well, certainly there is a trade-off, too because those same people that would potentially be renting commercial space if they could not do it on their property, what they are paying in additional taxes relative to what they would pay many commercial rents might be a lot different, too. So, it still may be more beneficial even at the higher rate, to operate a home-based business than it would be to rent actual commercial space. Certainly, there is some trade-off there as well.

Chair Bynum: I am going follow-up on this it topic for a minute and then go to Councilmember Hooser. I think the distinction Steve made earlier that the majority of people with home-based offices are not going to be impacted. It is more of this where there is an actual office setup with parking and clients are visiting. We have exempted the commercial use in this Bill – well, we have already done it, not in this Bill. Last year, if your commercial use is rental, long-term, then you have the option to stay in the homestead class by keeping your rental affordable. Just for information purposes, I am going to offer an amendment, probably not today because it needs a little more work, related to in-home daycare. Now, that would meet your criteria of they bring clients to the home, right? But it is a critical need for our community. It helps cut down on driving. They are the lowest paid people in the world and so I want to carve out an exception for them to say that if this is your commercial business, you can remain in the homestead class. If you are a dentist, I am personally fine saying stay in the commercial class. Now, you know that I have explored these options that Nadine is discussing. It is not easy. It is possibly doable. My judgment was better to do it in Planning, to allow people who choose to, to be able to divide their lots and get that separate business. But you know that would be complex as well and could have unintended consequences. Anyway, I just wanted to say that and with that I will go to Mr. Hooser.

Mr. Hooser: Along the same topic because to me it is about equity and we are asking people to self-report right now, right? What is the use on your property? I am afraid that if they know that their property taxes are going to double because they are using a quarter or less even of the property then number one, it does not seem equitable to charge them the full highest use when they are not using the entire property. If they are self-reporting on their use, it seems like they could self-report on the percentage of use and then we could tax them on their self-reporting without getting real complicated. I mean if they say one third (1/3) of the property is used for a dental office, then why can we not base it on that? Why does it have to be so complicated if we are already basing it on self-reporting?

Mr. Hunt: Well, just going through the mechanics that you establish value, you have your compensations, you have your land, and you have your total value. Right now, it exists as one (1) figure and then to that, the tax rate is applied. You have taken off all of your exemptions and there is a net taxable amount. Right now we are assigning a class, how does it prorate a portion of that class and portion of another class to come up with a sort of split billing or morphed billing that accomplishes both?

Mr. Hooser: I agree.

Mr. Hunt: Systematically, it is just general.

Mr. Hooser: I mean, it would have to be worked out. What we are saying is that this is complicated so we are going to err on the side of the highest income for the County and I am sorry homeowners, but that is the way it is rather than err on the other side or somewhere in the middle. I mean, I have gotten the same letters everybody else has gotten and there are people talking about tripling their taxes and whatnot. I have not even seen the analysis, but I have seen the letters and it does seem like it is not an equitable solution or certainly there could be a cap. I know we are not talking about caps, but to have someone's property taxes double or triple seems to be not right especially if they are only using a small portion of their property for this other use and they were honest and open about that. Anyway, thank you.

Chair Bynum: Other questions for Steve? I want to get pragmatic for a minute. Again, this is all related to taxation. So, this previous discussion about taxation by use is not part of this Bill, that was passed two (2) years ago. So, that is the current status and changing that would require a new Bill and like I said, something that we have been discussing for a number of years because there is no easy way to determine this. The other perspective is I followed up on half a dozen of those letters individually and the majority of them have been people who were in a really pretty aggressive commercial use, like vacation rental, and had been getting the homestead tax rate. Yes, we made a conscious decision to say no, you have this commercial use, you are going to be taxed at a commercial rate. So, those people who were running vacation rentals who went into that rate for the first time and just got their bills a few weeks ago, yes, that is shocking. Now, is that a huge unjustified tax increase or is that just a measure of the taxes we should have been collecting all along and were not? Now, you have moved into appropriate use. Now there are these circumstances like in-home daycare, I think, where it is unique, very unique. That is why I am going to try to work that out. So, if we wanted to address this taxation by use issue, I believe it could be done through Planning or it could be done through a combination. But either one of them, because I have worked on it, is going to be complex and difficult and is not going to happen for this fiscal tax year. So, that leads us back to the proposals that are before us. I would like to get back to Nadine's amendment that is on the floor because this amendment is by request and it does two (2) things, one is clean up some language, it is almost housekeeping, right?

Mr. Hunt:

Yes.

Chair Bynum: The second amendment removes from the Bill the notion that if you are running vacation rentals, you absolutely cannot have a homeowner's exemption. Now, that came from, I think, almost unanimous sentiment of the Council in the past. We need to address that for this amendment because the first part of it, we may need to split it because the first part I support and the second part I am not convinced yet. I want to make sure that we dialogue about both portions. If we start with the first portion, E, I have no objection whatsoever to that. Would that be the consensus of the Committee? It does not change the outcome, it just cleans up the language. The second section is significant and in fairness, I am glad we are having this dialogue because the Administration was not fully on board with this and I want to take responsibility for that as well. My sentiment still is if you run a vacation rental and you live in your home half the year, you should not have homeowner's exemption. That is my personal view. I would like us to discuss that portion of the amendment as well and if that is going to prevail, we can do it all as one (1), right? Does this make sense Committee? I would not vote for the Section that removes that. Right, but, I am sorry, Nadine.

Ms. Nakamura: Can we ask maybe Steve to explain why he is seeking a deletion of that portion relating to vacation rentals?

Mr. Hunt: Certainly.

Chair Bynum: I want to own this, in our last meeting with the team, this got added and Steve was not present. So, I want to own that. I did not think it would be an issue because my sense was everybody agreed with that premise. So, that was an error on my part and I accept that.

Mr. Hunt: I think there was somewhat of a misconception as to who in the vacation rental industry were getting exemptions and there were situations that a home used you a primary residence had sold, had been used a vacation rental or in some cases in the Visitor Destination Areas (VDA) and could be used for vacation rental became vacation rental upon the new owner and because we do only annual assessments if it is sold early in the year after the assessment was made, that carries throe the full-year. There is no prorations or no adjustments that are made mid-year to any of the assessments. It is done once a year when we certify. So, there were situations that a pure vacation rental that the owner lived in California and was getting the former owner's exemption for the portion of the remaining year and that was continuing. I think that is kind of what brought it to a head saying that we were getting a lot of complaints that they do not live here and how do they get a vacation rental and exemption? That was carryover. What we are taking about is people who qualify and live on their property and meet the other criteria set forth in Section 5A that specifically deals with the criteria for homeowner's exemption. But now we are saying that you have met that criteria, but Section F says you do not get it if you run a rental. So, to me, there is almost disagreement in the legal language itself and we do it for all other classes. Again, I will go back to the dentist. He is commercial for classification because he has a dental office and a home about, he still gets the forty-eight thousand dollars (\$48,000) or ninety-six thousand dollars (\$96,000) or whatever his exemption amount. It is his primary residence on a portion of that property. We do not prorate. That was another thing that had been done in the past. There was a legal opinion that came out from the State courts, the appellate court, that says if you are entitled to exemption, you get all the exemption. You do not prorate it based on a percentage of floor area or usage, you are either entitled or not. So, we have been giving exemptions to people when they were entitled and that would be over all classes of property and to exclude just the vacation rental to me, would create some lack of uniformity again on how we do that.

Chair Bynum: I would like to follow-up and identify a couple of issues and then go to Councilmember Rapozo. Steve, a typical example would be somebody own a vacation rental and but live there eight (8) months of the year and they vacation rental three (3) months.

Mr. Hunt: That is one (1) example.

Chair Bynum: Right now, they are entitlement to homeowner's exemption, but the way they plays out is it would we end up at one hundred thirty thousand dollars (\$130,000) that does not get taxed. But it is at the vacation rental rate.

Mr. Hunt: The eight dollars (\$8) rate, correct.

Chair Bynum: We are talking about three hundred fifty dollars (\$350). You get the exemption, it is going to save you three hundred fifty dollars (\$350). If you do not get the exemption, the County gets three hundred fifty dollars (\$350) more. I have asked you this in the past, somebody tells us this is their primarily residence, how do we know they do not have a primary residence in Glendale and in New York?

Mr. Hunt: Well, we do do searches. In fact, we are exploring doing a contract and it would be a sole-source. I do not mind telling you the name, it is a company called Lexus Nexus that specializes in research and they do it by social security number, they do it by owner's name, they do it by addresses, and they tell you all the properties that they own and where all of the exemptions are. Maui has been using it for a number of years with a high success rate. We use them periodically, we pay per time, per incident, when we want to research, but we want to start running the whole global list of all of the exemptions because it essentially pays for itself.

Chair Bynum: Steve, I could be convinced to vote for this if there is a consensus, if I knew that we were going to make that a routine follow-up. So, that is just my personal thing on this, but that is exactly what I wanted you to talk about. We have not had that in past so therefore we cannot verify it.

Mr. Hunt: Right. It is not in this year's fiscal budget, but hopefully for next year we are going to add that to the Real Property to continue to check and part of our compliance really, to make sure that people who are reporting as their primary residence are in fact, residents here, filing State income taxes as their residence here.

Chair Bynum: Councilmember Rapozo.

Mr. Rapozo: Thank you. Steve, I would bet that the homeowner exemption was intended for people that live in their house twelve (12) months out of the year, not eight (8) months, not six (6) months, not three (3) months and whether it is a vacation rental or a dental office or whatever it is, if they are not living in that house twelve (12) months out of the year, they should not get a homeowner exemption, that exemption. That is my opinion. The dentist analogy, that is fine. He or she lives there, but we are giving homeowner exemption to people that do not live here. They live here for a very short period of time, maybe three (3) month or four (4) months.

Mr. Hunt: No, no, we are not doing that.

Mr. Rapozo: I beg to differ because we have and we actually had this discussion with the County Attorney. It is his opinion that we have to. So, I want to strengthen this law and I am glad for the deferral because I want to make it perfectly clear and I do not know if the other Councilmembers feel the same way. But that was reserved for people that live here full-time-twelve (12) months out the year. They may leave for a week for vacation. That is what it is for and for people with multiple residences that live part-time in Minnesota or wherever should not qualify for that. They just should not. That was the intent of this exemption, was to take care of the people who are struggling to pay taxes on Kua'i.

Mr. Hunt: I think because it was such a golden ticket, because it is a combination of the cap, the exemption amount, the low tax rate, and

everything it was such a golden ticket for people. We did have a lot of people attempting to apply for it.

Mr. Rapozo: I think we have a lot of people that are getting that exemption that should not be getting it. I guess I would ask, if I could, I do not know who would draft that language. I guess we could try.

Mr. Hunt: We do have a passage in there. Is Jennifer here? We do have a passage that was done that addressed what qualified as an owner/occupant for that exemption. Again, homestead class is extensive use. It means that you have no rental income, you have nothing coming in now with the exception of Long-Term Leases (LTL)s. Aside from the affordable rentals, before we had that they basically had to be used only as your primary residence. But that is different from home exemption. The home use exemption says this is your primary residence. This is where you vote from, this is where you file your taxes from, and this is where you live the majority of the year which is usually six (6) months plus one (1) day. We do have languages that addresses all of that that qualifies and we are using Internal Revenue Service (IRS) standard of a primary residence to qualify that as your primary residence.

Mr. Rapozo: Right, but we do not have to follow the IRS.

Mr. Hunt: No, we could make our own.

Mr. Rapozo: Yes, because I think why should they qualify if they are multiple homes throughout the Country? I mean, for a homeowner...

Mr. Hunt: What the IRS says too, is you are only entitled to one (1). You can only have one (1) primary residence. Everything is secondary, tertiary, or whatever. You have other residences, but this is your primary residence.

Mr. Rapozo: Yes. But think about it, where would their highest tax assessment be?

Mr. Hunt: It depends.

Mr. Rapozo: Hawai'i. Our property values have so much higher than anywhere else. The benefit would be to make this their primary residence on paper. I think that is my concern.

Mr. Hunt: The values are higher, but some tax rates – I will give you an example. I had a property I owned in San Antonio, Texas assessed at one hundred seventy-six thousand dollars (\$176,000) and I paid four thousand eight hundred dollars (\$4,800) a year for property taxes. Rates are much, much higher and of course they have no income tax, it goes to the school system, and there a lot of other reasons high. But I telling you as a property owner, it is not always the best to be in Hawai'i. There are other States especially or high values.

Mr. Rapozo: Well, our assessments...

Mr. Hunt: Our assessments are higher.

Mr. Rapozo: Our assessments are much higher.

Mr. Hunt:
So, primary residence...

But our tax rates are typically a lot lower.

Mr. Rapozo: Because of the exemptions and the tax rates are just simply lower. Like you said, we are not paying the schools for Kaua'i. There are a lot of things that we do not pay out of our property tax. I think service for service, we pay very high, if you take out that. I am sure the mainland jurisdictions, if they did not have their Department of Education (DOE) or their school board assessment, it would be a lot less.

Mr. Hunt:

Right.

Mr. Rapozo: My point is the property is the assessments, their property value here is higher than elsewhere. I just want to make sure that that exemption is reserved for the people that truly deserve it and I have to figure out the language to do that. I do not know how.

Chair Bynum: Mel, the Bill right now would eliminate that exemption for vacation rental owners. It does not need an amendment, that is the way it is now. This amendment would remove that language, right?

Mr. Rapozo: But it is not just vacation rentals. They may not operate a vacation rental. They may operate another business, they may not. They may rent the house out. I do not know why it would be limited to vacation rentals. I am saying that the exemption should be saved for the people who live here all year and not go away. I mean, the vacation rental issue, that compounds it even more. That it is more of an insult I think, to our County when they are not paying, they are paying less tax and making a lot of money off the property. That is even more of an insult, I think. Whether it is vacation rental or some other use when they are not here, they should not have that ability to take advantage of the exemption. That is just my opinion.

Chair Bynum:

Yes, Councilmember Nakamura?

Ms. Nakamura: Changing the subject to the credit union. You are proposing a flat tax of one thousand five hundred dollars (\$1,500) and it is currently twenty-five dollars (\$25) a year no matter what size or no matter what the loan volume is of these credit unions. My research shows that the loan volumes of the seven (7) credit unions varies from one million dollars (\$1,000,000) to one hundred sixty three million dollars (\$163,000,000) and yet we looked at a flat tax. Similarly, the land values of the credit union's physical buildings, structures, and land, the assessed values varied from three hundred sixteen thousand dollars (\$316,000) all the way up to close to nine million dollars (\$9,000,000) and yet we looked at a flat tax. Did we...

JENNIFER S. WINN, Deputy County Attorney: Councilmember, if I could just stop you for a second. It is not a flat tax. It is a maximum. So, at maximum they would pay one thousand five hundred dollars (\$1,500) depending on the value of their property.

Ms. Nakamura: Thank you for the clarification. The current twenty-five dollars (\$25) is a what?

Ms. Winn: No, The current twenty-five dollars (\$25) is the minimum tax that everyone has to pay.

Ms. Nakamura:

So, they are at zero (0) now then?

Ms. Winn: No, everyone has to pay twenty-five dollars (\$25) at least. The amendment is a sealing that their property will be valued like anyone else and if their taxes are one thousand eight hundred dollars (\$1,800), they would only have to pay one thousand five hundred dollars (\$1,500). If their taxes were five hundred dollars (\$500), they would only pay five hundred dollars (\$500) not the one thousand five hundred dollars (\$1,500). It is a ceiling.

Ms. Nakamura:

Okay.

Chair Bynum: If I can interject. This is about the physical property and the services that the County provides any property and basically Councilmember Nakamura, that is one hundred ninety-seven dollars (\$190,000) of value. So, even the smallest credit union building is going to be valued for than one hundred eighty-seven thousand dollars (\$187,000). But that is correct. The small credit unions are going to pay one thousand five hundred dollars (\$1,500) and the huge credit union, that without this exemption would probably be paying tens of thousands of dollars in taxes, will pay one thousand five hundred dollars (\$1,500).

Ms. Yukimura:
to that?

I have a follow-up question. Can I follow-up

Chair Bynum: Yes. But we need to get back to the amendment because technically we are on this amendment. Let us finish this discussion. But I am going to bring it back to the amendment. Go ahead, Councilmember Yukimura.

Ms. Yukimura: On the amendment which proposes to remove the special exemption for property that is operated as a vacation rental, this covers bed and breakfast as well, standalone vacation rental – well, standalone would not have a double use.

Mr. Hunt: Standalone would only have if they qualified and lived eight (8) or nine (9) months of the year and vacation rent for a shorter period, but still on its face would qualify for the home exemption without whether they use it or not as a vacation rental. The only issue there would become the tax rate with it still being entitled to the home exemption.

Ms. Yukimura: So, they still will get a homeowner's exemption, but they will have a different and higher rate?

Mr. Furfaro:

Not everyone, JoAnn.

Mr. Hunt:
rental is whether...

In our eyes, what constitutes a vacation

Ms. Yukimura:

Renting for more than six (6) months.

Mr. Hunt: No, not whether you pay but whether you are subject to TAT taxes. If you are doing short-term and you are subject to those taxes and we have identified short-term rental opportunities either through self-admission on a survey or through our own research on websites or whatever means, if you are subject to Transient Accommodations Tax (TAT), you are considered a vacation rental. That includes whether you are renting one (1) room in

our house, the entire house for a portion of the year, or whether you have a second house or cottage that you rent separately from your main residence. We do not distinguish between those. It is really one (1) class. It is are you subject to the TAT or not?

Ms. Yukimura: If you live in it as your primary residence, then you are getting owner-occupant classification which...

Mr. Hunt: All that gives you is your exemption.

Ms. Yukimura: Oh, your exemptions?

Mr. Hunt: Correct.

Ms. Yukimura: But you will be taxed at a higher rate?

Mr. Hunt: Correct.

Ms. Yukimura: And right now the rate differential is?

Mr. Hunt: Three dollars and five cent (\$3.05) versus eight dollars (\$8).

Ms. Yukimura: Right. This happens in other properties where there is a dual use with an owner-occupant with an owner-occupant status? So, you are basically saying that the rule will apply across the board for any properties of dual use?

Mr. Hunt: Right.

Ms. Yukimura: Where you can show a legitimate owner occupancy?

Mr. Hunt: Correct, and we are doing that now currently. There is industrial properties that have an industrial use and someone lives there as well. They get their exemption and they are taxed as the industrial rate, commercial similarly.

Ms. Yukimura: So, for the vacation rentals that are standalone vacation rentals with no owner-occupant status, they do not get an exemption and they get the higher rate?

Mr. Hunt: Correct. All we are talking about is whether they are entitled to the exemption amount, which may be one hundred thirty dollars (\$130), one hundred seventy dollars (\$170), now depending on where we ultimately end up on that.

Ms. Yukimura: Thank you.

Chair Bynum: Other questions about this topic?

There being no objections, the meeting was called back to order, and proceeded as follows:

Chair Bynum: I want to go back to this amendment. The amendment has two (2) sections. I support one and I do not support the other. I think we could proceed perhaps, I am going to suggest that we vote on this amendment and those who are good with both provisions, vote for it and if it succeeds then we are done. If the amendment fails, then we can come back and separate it out. Would that work for the Committee?

Mr. Rapozo: I would suggest we just take it a seriatim and you can do one at a time.

Chair Bynum: That is my preference.

Mr. Rapozo: Yes, and then we do not have to go through this one more time.

Chair Bynum: Any further discussion on the first change in Section E? If not in seriatim, I will entertain a motion to approve the first numbered of the amendment.

Mr. Hooser moved to amend Bill No. 2495 as circulated, in seriatim SECTION 6, Sec. 5A-11.4(a)(2)(E) as shown in the Floor Amendment which is attached hereto and incorporated herein as Attachment 2, seconded by Mr. Rapozo, and was unanimously carried.

Chair Bynum: That portion carries. The second portion, any further discussion? Councilmember Nakamura.

Ms. Nakamura: No, that is okay.

Chair Bynum: Councilmember Rapozo.

Mr. Rapozo: I will be supporting this amendment, however, I will be introducing an amendment at the next – this is being deferred, so at the next Committee Meeting I will introduce or possibly introduce an amendment that would clarify the requirements for the homeowner exemption so we can tighten that up because I do not believe it should be limited to any specific use such as vacation rental. I believe it should cover the person's body in the house for the year and I guess I will get some input from the County Attorney on that.

Mr. Rapozo moved to amend Bill No. 2495 as circulated, in seriatim, SECTION 6, Sec. 5A-11.4(a)(2)(F) as shown in the Floor Amendment which is attached hereto and incorporated herein as Attachment 3, seconded by Ms. Nakamura.

Chair Bynum: Then the discussion, Mr. Rapozo, what you are saying is you want a situation where if the person lives in the home the entire year and has commercial use, they would be eligible for the exemption? If their commercial use involves them not being physically present the entire year, they would not? Is that your intention?

Mr. Rapozo: If they live in the home?

Chair Bynum: Like the dentist example, he is there all year round, he is not going anywhere, and he would be eligible?

Mr. Rapozo: Yes, he would pay the higher rate, but he would qualify for the homeowner exemption.

Chair Bynum: If you are running a vacation rental, then you are not eligible because if you rented it one (1) day, you were not living there that day.

Mr. Rapozo: Again, I have to figure out and I will consult with the Attorneys what that number be? Is it eight (8) months, nine (9) months? I do not know what that number is at this moment.

Chair Bynum: So, there is a different law, I believe, that establishes that parameter of what constitutes, is that correct?

There being no objections, the rules were suspended.

Ms. Winn: The County has Administrative Rules that deals with what a primary or principal residence is and I do not have them in front of me now so I cannot remember what the number is exactly.

Chair Bynum: One hundred eighty (180).

Mr. Hunt: One hundred eighty-one (181).

Chair Bynum: One hundred eighty-one (181), yes.

Ms. Winn: Right. However, Administrative Rules would be preempted by an Ordinance.

Mr. Rapozo: Oh, yes.

Chair Bynum: My concern is whether we could amend this Ordinance to accomplish that purpose?

Ms. Winn: I would have to look at it further. I would be happy to talk to Councilmember Rapozo later.

Chair Bynum: Any further discussion before we take a vote on the second portion?

There being no objections, the meeting was called back to order, and proceeded as follows:

The motion to amend Bill No. 2495 as circulated, in seriatim, SECTION 6, Sec. 5A-11.4(a)(2)(F) of the Floor Amendment was then put, and failed by a vote of 2:2:1 (Committee Chair Bynum and Councilmember Hooser voting no, Councilmember Kagawa was excused).

Chair Bynum: The motion fails 2:2. So, part one is passed and part two did not. Are there any other amendments to entertain for this Bill?

Mr. Rapozo: I have an amendment. If we could circulate the amendment and it is regarding the credit union exemption which would remove the change that was put in and revert back to the original language.

Mr. Rapozo moved to amend Bill No. 2495 as circulated, which is attached hereto and incorporated herein as Attachment 4, seconded by Mr. Hooser.

Mr. Rapozo: Thank you, Mr. Hooser. I would hate to see it die without a second, that happened before.

Chair Bynum: Is there any discussion?

Mr. Rapozo: I want to make some comments. I think the credit unions – and I actually had staff go back and pull all of the minutes from the Committee Meetings back in 1985 and 1986 that puts the extent exemption and I think it is an interesting read. It basically talks about the difference between credit unions and other financial institution. I think Mr. Hunt mentioned quite a few of them. They are member-owned. I cannot remember if it was you or not, Mr. Hunt. But all profits go back to the owners, the owners pay property taxes, and just reading some of the discussions from some of the Councilmembers back then. In fact, JoAnn was one of them. Thank you, JoAnn, you were actually the Co-Chair at the time back in 1986?

Ms. Yukimura: Of what?

Mr. Rapozo: Of the Council.

Ms. Yukimura: Oh, Co-Chair?

Mr. Rapozo: That is what it says, Co-Chair, you and Norman Akita back in 1985-1986. There was testimony from the members of community, but I think it was clear back then, I think, that the intent or the legislative intent back then was to treat credit unions differently because of the service they provided, that they were not driven by profits. They were driven by service, service to the plantation workers and it was restricted membership structure that, in fact, this was a way that the County can help the credit unions help the members. They are members. They are owned by members and there is a difference between not-for-profit and non-profit. Credit unions are not-for-profit which is interesting. They do not derive their funds by donations and charities, it is by payments by the members. When we talk about the history and culture of Kaua'i, I know this may sound corny to some, but credit unions are a huge part of this island, of the State and of the Country, in fact, and for the money that this would generate which I forget what you said? Thirteen thousand dollars (\$13,000), that is what the one thousand five hundred dollars (\$1,500) would generate and of course you have to subtract the twenty-five dollars (\$25) now so it is even less than that. The disruption in our statutes for thirteen thousand dollars (\$13,000), I just do not think that we need to do this, number one, and I think it sends the wrong message to the credit unions. I think it sends the wrong message to the people of what the credit unions do and granted some of them have some fabulous buildings. Kaua'i Community Federal Credit Union (KCFCU), it makes you wonder. Wow, they make a lot of money. But yet, the money that is the profits or the proceeds that are generated gets returned back to the members and God bless them for being so successful. I do not think anyone should be punished for being successful. But I go back even deeper into the reasons why credit unions were formed, the reasons why the Federal government exempted them from paying tax and then again, back in 1985-1986, this was actually an Hawai'i State Association of Counties (HSAC) issue that I just found out. That all of the Counties agreed that we should exempt the credit unions from property tax. So, for those reasons I will support this amendment, that we continue the exemption for the credit unions. Thank you.

Chair Bynum:
Councilmember Yukimura.

Other discussion regarding this amendment?

Ms. Yukimura: I just wanted to ask some questions about this. First of all, I appreciated the clarification that it is a cap. So, that it is graduated and presumably the credit unions that own smaller properties, that are in rural areas...

Ms. Nakamura: That is the maximum.

Ms. Yukimura: How do you – oh, actually they would all pay the cap though? They would all pay the maximum because...

Chair Bynum: Yes, because nobody has a property valued less than a hundred.

Mr. Hunt: At this point, yes because I think about one hundred eighty-seven thousand five hundred dollars (\$187,500) was about the value level that which it had to be below for it to not pay that cap.

Ms. Yukimura: So, there is in effect no graduation of taxes?

Mr. Hunt: Not of the nine (9) currently that we have.

Ms. Yukimura: But it is per lot?

Mr. Hunt: Yes.

Ms. Yukimura: Where they are renting there is, theoretically, no impact?

Mr. Hunt: What do you mean where they are renting?

Ms. Yukimura: They do not own the property.

Mr. Hunt: Right.

Ms. Yukimura: So, if they are renting office space then...

Mr. Hunt: They are currently paying twenty-five dollars (\$25) through their contractual obligation to pay the property taxes with the landlord, I imagine. So, if that went from twenty-five dollars (\$25) to one thousand five hundred dollars (\$1,500), they still have to apply for the exemption. But if they applied for the exemption...

Ms. Yukimura: No.

Mr. Hunt: But if they applied for the exemption on a leased property with the recorded lease, they would still be subject to that.

Ms. Yukimura: No, they are not paying twenty-five dollars (\$25). If the landlord passes it on, he is passing on what he pays.

Mr. Hunt: Correct. Most leases, that I understand with the credit unions, would be subject to paying the property tax. So, in the case where it was twenty-five dollars (\$25) currently and it went to one thousand five hundred

dollars (\$1,500), that one thousand five hundred dollars (\$1,500) would be paid by the lessee, which is the credit union. For them to do that they come in with a recorded lease and an application for that exemption. It is currently treated as an exemption. So, right now it is one hundred percent (100%) exempt which generates the minimum tax bill of twenty-five dollars (\$25).

Ms. Yukimura: So the landlord, no matter what the assessed value of the landlord's property, is entitled to the lessee's real property tax classification?

Mr. Hunt: Well, not so much the tax class because in most cases these are in commercial, like 'Ele'ele Associates is one of the landlords. They rent space. In that situation, the credit union occupies a portion of the 'Ele'ele Shopping Center and their portion of the taxes, there is an exemption applied to the total value of the entire property. So, they are exempted from that amount, that would generate a minimum tax bill of twenty-five dollars (\$25) separately.

Ms. Yukimura: A landlord renting to a renter that qualifies for a low-income exemption is not getting the low-income exemption rate are they?

Mr. Hunt: The landlord that is renting?

Ms. Yukimura: To a low-income tenant.

Mr. Hunt: Like a low-income affordable rental? Are you talking about the residential?

Ms. Yukimura: Or is renting to a senior who would qualify if they had to pay property taxes, they would get the senior's?

Mr. Hunt: No, because that person unless he has a fifteen (15) year lease or more, does not qualify as a property owner. So, in the case of the affordable rental all they get is the tax rate of homestead under that scenario. They do not get the exemption. But if you bring in a reported lease...

Ms. Yukimura: Wait, wait. Why would there be even an owner-occupant if it is a renter of a property?

Ms. Winn: Legally I can answer, perhaps. Section 5a7.1 defines what an owner is and an owner includes those people who have recorded leases of fifteen (15) years or more. I am sorry, it is 7.2.

Ms. Yukimura: So, if an individual had a recorded lease – that does apply to individuals, too. So, if an individual had a recorded lease and they were entitled to the age exemption then they are considered?

Ms. Winn: 7.2 is the overall definition of "owner." But now you are talking about a separate exemption and it has a different definition of what an owner-occupant is. So, that would be more specific and it has a different meaning.

Mr. Hunt: When you are going through the exemption that deals specifically with credit unions, it defines that you have to apply. It is good for the length of period that you apply for. So, if it is a five (5) year lease, you apply once and get that for five (5) years, but it is your obligation to continue to

record and bring in new leases in you renew. You need to establish that area that you are leasing and then there is an exemption amount that is applied to the overall value of the property if it is a portion of that is given to that credit union lease. If it is a standalone, that is leased by a tenant, then it is the whole building. But if it is a portion of, we only give the exemption to that specific portion that is being leased.

Chair Bynum:

Other questions? Councilmember Rapozo.

Mr. Rapozo: I have a question, Steve. I am looking at these numbers that Councilmember Nakamura just passed out. Maybe you can get him a copy. It is showing the different assessments of the different credit unions and it shows us the assessment, the credit union market tax which is what they would pay.

Mr. Hunt:

Right.

Mr. Rapozo: I am looking at 'Ele'ele Associates Incorporated and the total assessed is eight million nine hundred thousand dollars (\$8,900,000).

Mr. Hunt: That is the entire complex, Times, Big Save, everything, that is not CPR'd, it is not segregated out. That is the entire value of the shopping center.

Mr. Rapozo: Well, who owns that? Is that the credit union who opens that building?

Mr. Hunt:

No, 'Ele'ele Associates owns it.

Ms. Yukimura:

That is what I have been struggling with.

Mr. Hunt: I believe there are two (2) credit unions there actually.

Mr. Rapozo:

Right.

Mr. Hunt: The total of the two (2) credit unions that are being exempted in value is three hundred forty-one thousand nine hundred sixty-seven dollars (\$341,967).

Mr. Rapozo: I know, but this is showing nine million dollars (\$9,000,000) of assessment and twenty-five dollars (\$25), that is not accurate?

Mr. Hunt: That is we do not have a separate assessment for the individual lease spaces. It is all one value for the property.

Mr. Rapozo: But the County is receiving more than twenty-five dollars (\$25) of tax revenue from that parcel, right?

Mr. Hunt:

Yes.

Mr. Rapozo:

Oh, yes.

Mr. Hunt:

Absolutely.

Mr. Rapozo: But that is not what this is telling me. This is telling me out of the assessment of eight million nine hundred thousand dollars (\$8,900,000), the credit unions are paying. That is just...

Mr. Hunt: The fourth or fifth column, the credit union market tax, that is breaking out the proportions.

Mr. Rapozo: That is what their tax would have been?

Mr. Hunt: Yes, the two thousand seven hundred thirty-five dollars and seventy-four cents (\$2,735.74) that is what the credit unions would have paid as opposed to twenty-five dollars (\$25).

Mr. Rapozo: I got it. The one right below that, seven million nine hundred thousand dollars (\$7,900,000) assessed...

Mr. Hunt: That is the new.

Mr. Rapozo: The property tax would be sixty-three thousand dollars (\$63,000)?

Mr. Hunt: That is correct, that is the new KCFCU building.

Mr. Rapozo: Right. That 'Ele'ele one, I just punched it in my computer and saw 'Ele'ele Shopping Center and I am thinking I hope that whole shopping center is not collectively paying twenty-five dollars (\$25).

Mr. Hunt: Oh, no. They pay a lot more, that is just the credit union portion.

Chair Bynum: Councilmember Nakamura.

Ms. Nakamura: Steve, why would you not do it based on assessed value even if we are saying that the credit unions serve a different unique function and yet granted looking a little bit more like private sector financial institutions. But they do serve a special purpose in this community. So, even if we were to say look, let us give them a non-profit break as we do with some other worthy community organizations, why would we not do it based on value and not just an upper limit?

Mr. Hunt: It was something that we considered. We could have a sliding scale and say based on percent of value, that you are getting an eighty-five percent (85%) or eighty percent (80%) or seventy-five percent (75%) exemption applied and therefore, the bigger more expensive buildings would pay more. It is possible. I mean, it gets backpack to the *ad valorem* which was the intent.

Ms. Nakamura: Which is the intent.

Mr. Hunt: But also, are they receiving essentially the same services? Do they still get fire, police, and are we just prorating it based on...

Ms. Nakamura: Size, which is what we do with everyone else. I think that based on the numbers that I am looking at and their loan values and

their property value differentials from three hundred sixteen thousand dollars (\$316,000) in assessed value up close to seven million nine hundred thousand dollars (\$7,900,000) million, that is a huge differential. It seems that we can do better than raising two hundred twenty-five dollars (\$225) a year from all credit unions and we do not have to charge the full one hundred thirty-four thousand dollars (\$134,000) that we would have received if they paid the market rents. But there must be something more equitable that I would like to explore. I would want to have some conversations with you about that.

Chair Bynum: I just would point out any changes for next Fiscal Year are going to have to happen in this Bill in the next two (2) weeks. Councilmember Yukimura.

Ms. Yukimura: I think what Vice Chair is bringing up is that these are non-profits, but they are also a business of substantial value. So, the Kaua'i Island Utility Cooperative (KIUC) is similar in that. It is a co-op, it is member-owned. How do they pay their real property taxes?

Mr. Hunt: KIUC pays an in lieu of tax based on their gross income from their operations. I believe it is 1.885% of the gross utility bills.

Ms. Yukimura: What is that in dollar figures? First of all, you said it is a percent of their gross income?

Mr. Hunt: Gross income, yes, and it varies year to year.

Ms. Yukimura: And their income is not a profit, right? It is also patronage or something, that is given back to the members.

Mr. Hunt: Correct.

Ms. Yukimura: So, it is a percentage of their gross income and do you know what that amount is that comes to the County?

Mr. Hunt: I do not recall offhand. I want to say it is in the neighborhood of three million dollars (\$3,000,000) to four million dollars (\$4,000,000) maybe.

Ms. Yukimura: Three million dollars (\$3,000,000) to four million dollars (\$4,000,000)?

Mr. Hunt: About four million dollars (\$4,000,000) is what I understand.

Ms. Yukimura: Which obviously, they have quite a big income, but again, it is not profit. Thank you.

Chair Bynum: Other questions?

There being no objections, the meeting was called back to order, and proceeded as follows:

Chair Bynum: We have before us the amendment from Mel. I will start by saying that I think these are interesting discussions. I think the formula that Nadine is discussing would generate additional revenue. So, some of

the credit union members here would probably be less revenue from the really small ones, but much more from the larger ones. Currently, if we taxed at normal commercial rates, it is one hundred thirty-four thousand dollars (\$134,000), to me this proposal I support. One thousand five hundred dollars (\$1,500) for the large credit union is less than their toilet paper budget for the year. Every one of these properties, even the small ones, receive County services and the one thousand five hundred dollars (\$1,500) is just a recognition, it is not about the money. It is about the principle, I think, that if you receive these kind of services there should be some payment. Credit unions are not the same as other non-profits in terms of their impact on traffic, the community, and that kind of thing. I support this as-is. I am not going to be supporting this amendment. Any other discussion?

Mr. Rapozo: I just wanted to say that granted the credit unions do require County services, but I think we cannot forget the services that the credit unions have provided. We have people that cannot go to the bank and borrow money. They cannot go and get a student loan for whatever reason, credit and yet the credit unions are there for them at low interest and a lot easier to obtain the services. I think we cannot forget that there is a return on investment, if you will, by helping the credit unions. I am not talking about just this year or last year. I am talking about from when credit unions were formed and why. They have played a huge part of the growth of this island and I just want to make sure that we understand that. That is it. Thank you.

Chair Bynum:

Councilmember Yukimura.

Ms. Yukimura: I am not on this Committee, so I do not vote today. But I would like to I think see an exploration of other alternatives to just the twenty-five dollars (\$25) minimum tax versus one thousand five hundred dollars (\$1,500) cap because I do think we have to move towards this basic principle that everybody has to do some part of paying for services for county Services. We do try to give some adjustments for ability to pay and burden on individuals and organizations, but if a group does not pay for at least a portion of their responsibility, then somebody else is paying for it. How do we get some equity into this? I know that this credit union have said that we have to pass it onto our membership, but one thousand five hundred dollars (\$1,500) divided by the membership is not that much that gets passed on per customer or per member. I think this is worthy of more discussion and thinking than just cutting it off at this initial time.

Chair Bynum:

Any other discussion?

The motion to amend Bill No. 2495, as shown in Attachment 4, was then put, and failed by a vote of 1:3:1 (Committee Chair Bynum, Councilmember Hooser, and Councilmember Nakamura voting no, Councilmember Kagawa was excused).

Chair Bynum: The measure does not pass by a vote of 1:3. Any other amendments today? I am going to take public testimony before we close. Although some people did testify this morning. I want to remind the Committee that in a minute I am going to ask for a two (2) week deferral, that will be the last opportunity at the Committee level to make amendments and we want to make amendments at Committee. I have already announced that I intend to work on one

related to licensed in-home daycare. Other than that, I think is there anyone in the audience who would like to testify on this matter? Please come forward. Steve, you can stick around, right?

There being no objections, the rules were suspended to take public testimony.

DOUG BLACKBURN: Hello Councilmembers. My name is Doug Blackburn. I live in Hanalei and as for as I can tell this Bill will get rid of the permanent tax credits and get rid of the two percent (2%) cap that we have been having. I know we were like on whatever the Honolulu thing is now instead of the two percent (2%).

Chair Bynum: The cap has been set at the cost of living

Mr. Blackburn: Right, but you were talking about getting rid of this, too.

Chair Bynum: This Bill eliminates the permanent home use credits and replaces it with increased homeowner's exemptions.

Mr. Blackburn: Well in my particular case, my taxes are going to go up twelve thousand dollars (\$12,000) if you get rid of the tax credits and my exemption goes up twenty thousand dollars (\$20,000). My mom still lives with us, she is eighty-eight (88) and so our tax credit on our house is going to go to one hundred forty thousand dollars (\$140,000), but when your houses are appraised for million these days if you live any decent place on Kaua'i, that tax-exemption is only a couple hundred dollars. But you are talking about raising mine to twelve thousand dollars (\$12,000) now. I know I might be an exceptional case in the matter, but there are a lot of people that are on fixed incomes, that have lived here a long time that no longer make had a living, that we are all retired and when you eliminate this particular – all of a sudden we are going find out next year our taxes double or triple or whatever the amount might be. I keep hearing that this Bill is going to lower taxes for most people, I sure would like to know who those people are going to be. Taxes are going down because if mine goes up this much, there is going to be a lot of people out there that are in the same situation and it is going to be mostly people that are retired and all of a sudden they see their bills go up substantially. So, we are either going to be forced to sell the homes we have been living in all of these years and move on to some lower house that we can afford now because we cannot afford to pay the taxes that would be occurring from this particular change. How much money is the County actually going to save by getting rid of the tax credits because we are just a small minority of the overall tax base as it is? I mean he said it was three million dollars (\$3,000,000) that he thought was basically the tax credits that are issued to people now in the County?

Chair Bynum: Three million eight hundred thousand dollars (\$3,800,000).

Mr. Blackburn: Three million eight hundred thousand dollars (\$3,800,000) out of a budget of how much?

Chair Bynum: General Fund budget of about one hundred fifteen million dollars (\$115,000,000), one hundred twenty thousand million dollars (\$120,000,000) including Federal funds.

Mr. Blackburn: Right. It would be very interesting to know exactly where that three million eight hundred thousand dollars (\$3,800,000) is going to. Is it mostly older retired people? I mean, you are going to be putting a burden on all of these people because I am here, I would prefer to be somewhere else. I came in to figure out what is going on with this.

Chair Bynum: That is your first three (3) minutes. You can continue.

Mr. Blackburn: Thank you. But I have noticed that already people are being – I just hear in the community. I am not a vacation rental, but a lot of people are and suddenly they are hit with these huge bills and they were not prepared to see this and people with commercial businesses on their properties, big centers like I am sure a lot of people have been receiving letters from a lot of people that suddenly see their taxes double and triple. Maybe some of these have justified and maybe they are not, but for a person that is on a fixed income or budgets their household every year and suddenly to all of a sudden find out within thirty (30) days of paying their bills that their taxes have doubled or tripled, is not easy to come up with the money right away. So, if something major is going to change the tax code and take the tax money, there needs to be a little cushion for people to adjust to it, to prepare for paying their taxes. I mean I know that my fixed income is limited and suddenly for me to have to pay twelve thousand dollars (\$12,000) more, where am I going to come up with the extra twelve thousand dollars (\$12,000) because I do not make any other money now.

Chair Bynum: I would like to respond.

Mr. Blackburn: Sure.

Chair Bynum: In the Bill that is before us, we are talking about increasing the homeowner's exemption which will impact all homeowners. The proposal is to graduate that for elderly so there is an additional exemptions for age. We have a low-income exemption of one hundred twenty thousand dollars (\$120,000) that also can be applied for. In addition to all of those, there was a recognition for those individuals in your circumstance with very high valued homes who previously had the circuit breaker, that is why we put in the home preservation credit which is for those outliers, for individuals who have high-value homes and so you may be eligible for that credit. Those are individual circumstances. Our tax office assumes there would be between one (1) and two hundred (200) people who would apply for that credit and this is our attempt to deal with unique circumstances. So, I can meet with you offline with our tax people to see if you are going to meet the eligibility for that.

Mr. Blackburn: Well, it is probably a good chance I will because I do not make any income.

Chair Bynum: Right. Then we went over those parameters today – I am sorry?

Mr. Blackburn: It is just another thing I have to go through again. It is always changing, the tax code. We need a little bit more. What was wrong with the two percent (2%) way back when? I know that...

Chair Bynum: I am going to answer that question and then we are going to finish this. The two percent (2%) was well-intended and met in its

first few years, but it had unintended consequences that caused huge discrepancies and inequities of what people are paying. We have been through three (3) years of tax reform, this is kind of the last step, and if this Bill succeeded or the substantial portions. For the first time in many years all taxpayers will be treated equitably-the same. Other than the known deductions like for age there will not be these anomalies. Overall, the vast majority of people – and then next week, we need this data that we talked about. So, we are going to need to do an analysis very specifically about how this impacts various taxpayers and that is in the process. So, that is the best answer I can give you now. I am willing to meet with you and go to your individual circumstance to see if you are eligible for the credits that we put in.

Mr. Blackburn: The last thing I would like to say is I bet you that most people in the County are going to be paying more taxes and not less.

Chair Bynum: My analysis thus far is that the vast majority of homeowners will have reduced taxes.

Mr. Blackburn: Well, if everybody is going to be equal in the County, everybody should pay the equal amount of tax. We all get the same benefits.

Chair Bynum: That exactly what this Bill will accomplish.

Mr. Blackburn: But it is all based on property value. If your house is worth more, if you lived here a long time...

Chair Bynum: I cannot continue this dialogue.

Mr. Blackburn: Alright.

Chair Bynum: We have received your testimony and I am willing to meet with you offline. Anyone else who would like to testify on this Bill?

Mr. Blackburn: Thank you very much.

Chair Bynum: Thank you.

There no further testimony, the Committee was called back to order, and proceeded as follows:

Chair Bynum: I think there is no further business in this Committee, right?

Mr. Hooser moved to defer Bill No. 2495.

Mr. Rapozo: I just want to make one (1) quick comment.

Chair Bynum: Yes, please.

Mr. Rapozo: I want to say that I live in a decent place on Kaua'i and my house – I just looked it up, two hundred forty-six thousand six hundred dollars (\$246,600) is my assessment. I just want to say, I know that the speaker said the house needs to be assessed at one million dollars (\$1,000,000) if you want to live in a decent place. Honestly, that is not necessarily true because I

consider where I live a decent place. Like I said, it is less than two hundred fifty thousand dollars (\$250,000) assessed value. Thank you.

Chair Bynum:
entertain a motion to defer?

Thank you. Any other comments before I

Upon motion duly made by Mr. Hooser, seconded by Mr. Rapozo, and carried by a vote of 5:0:1 (Councilmember Kagawa was excused), Bill No. 2495 was deferred.

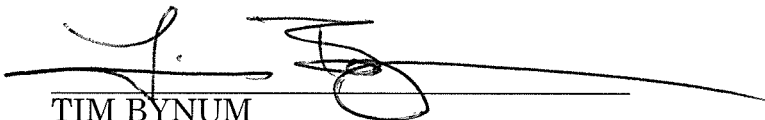
There being no further business, the meeting was adjourned at 12:59 p.m.

Respectfully submitted,



Allison S. Arakaki
Council Services Assistant I

APPROVED at the Committee Meeting held on September 18, 2013:



TIM BYNUM
CHAIR, FED COMMITTEE

(August 7, 2013)
FLOOR AMENDMENT
Bill No. 2495, Relating To Real Property Taxes

Introduced by: NADINE K. NAKAMURA (by request)

1. Amend Bill No. 2495, SECTION 6, Sec. 5A-11.4(a)(2)(E) to read as follows:

“[(E) That a person living on premises, a portion of which is used for commercial purposes, shall receive the exemption applicable to the entire property, but shall be classified and taxed at the highest applicable use rate]

(E) That a person living on premises, a portion of which is used for commercial purposes, shall receive the exemption applicable to the entire property, but shall be classified and taxed at the highest applicable use rate as determined by the tax rates set for each use class from the prior year.”

2. Amend Bill No. 2495, SECTION 6, Sec. 5A-11.4(a)(2)(F) relating to the allowance of exemptions for a property that is operated as a Vacation Rental, by deleting Sec. 5A-11.4(a)(2)(F) in its entirety.

Material to be deleted is bracketed. New material to be added is underscored.)
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(August 7, 2013)
FLOOR AMENDMENT
Bill No. 2495, Relating To Real Property Taxes

Introduced by: GARY L. HOOSER (by request)

1. Amend Bill No. 2495, SECTION 6, Sec. 5A-11.4(a)(2)(E) to read as follows:

“[(E) That a person living on premises, a portion of which is used for commercial purposes, shall receive the exemption applicable to the entire property, but shall be classified and taxed at the highest applicable use rate]

(E) That a person living on premises, a portion of which is used for commercial purposes, shall receive the exemption applicable to the entire property, but shall be classified and taxed at the highest applicable use rate as determined by the tax rates set for each use class from the prior year;”

Material to be deleted is bracketed. New material to be added is underscored.)
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(August 7, 2013)

FLOOR AMENDMENT

Bill No. 2495, Relating To Real Property Taxes

Introduced by: MEL RAPOZO (by request)

1. Amend Bill No. 2495, SECTION 6, Sec. 5A-11.4(a)(2)(F) relating to the allowance of exemptions for a property that is operated as a Vacation Rental, by deleting Sec. 5A-11.4(a)(2)(F) in its entirety.

Material to be deleted is bracketed. New material to be added is underscored.)

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(August 7, 2013)
FLOOR AMENDMENT
Bill No. 2495, Relating To Real Property Taxes

Introduced by: MEL RAPOZO

1. Amend Bill No. 2495, SECTION 7, Sec. 5A-11.24 to read as follows:

“Sec. 5A-11.24 Credit Union Exemption.

(a) Real property owned in fee simple or leased for a period of one (1) year or more by a Federal or State credit union which is actually and exclusively used for credit union purposes shall be exempt from [all] real property taxes [over fifteen hundred dollars (\$1,500.00)]. If the property for which exemption is claimed is leased, the lease agreement shall be in force and recorded in the Bureau of Conveyances at the time the exemption is claimed. As used in this Section, “Federal credit union” means a credit union organized under the Federal Credit Union Act of 1934, 12 U.S.C. Chapter 14, as amended, and “State credit union” means a credit union organized under the Hawaii Credit Union Act, HRS Chapter 410, as amended.

(b) If any portion of the property which might otherwise be exempted under this Section is used for commercial or other purposes not within the conditions necessary for exemption (including any use the primary purpose of which is to produce income even though such income is to be used for or in furtherance of the exempt purposes) that portion of the premises shall not be exempt but the remaining portion of the premises shall not be deprived of the exemption if the remaining portion is used exclusively for purposes within the conditions necessary for exemption. In the event of an exemption of a portion of a building, the tax shall be assessed upon so much of the value of the building (including the land thereunder and the appurtenant premises) as the proportion of the floor space of the nonexempt portion bears to the total floor space of the building.”

(Material to be deleted is bracketed.)

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